



INDONESIA: ENERGY HIGHLIGHTS MARCH 2006

Summary

- On March 1, downstream regulatory body BPH MIGAS awarded development rights for the East Java to West Java pipeline to state-owned oil and gas company Pertamina and state-owned engineering and construction company PT Rekayasa Industri.
- Royal Dutch Shell opened its second and third retail fuel stations in Jakarta in March 2006.
- After lengthy negotiations, Pertamina and ExxonMobil signed a Joint Operating Agreement (JOA) for the Cepu block in East Java on March 15.
- Indonesia's largest coal exporter, PT Bumi Resources, announced it would divest its coal units Kaltim Prima Coal, Arutmin, and Indocoal Resources on March 16.
- On March 29, State electricity company PLN announced tenders for six Independent Power Projects.
- The Government of Indonesia (GOI) announced on March 21 that it had withdrawn plans to hike electricity tariffs in 2006.
- On March 7, state gas company PGN signed a Memorandum of Understanding (MOU) with an Indonesian subsidiary of the Canadian firm Serica Energy for gas from the Asahan field offshore North Sumatra.
- The private Indonesian energy firm Medco Energi and French oil and gas giant Total signed agreements to supply South Sumatran and East Kalimantan gas on March 22.

Note: This report uses an exchange rate of 1 USD = Rp 9,075

BPH Migas Awards Pipeline Rights

On March 1, downstream regulatory body BPH MIGAS announced that state oil and gas company Pertamina and local firm PT Rekayasa Industri had won the rights to build and operate an East Java to West Java gas pipeline. The companies won the rights to build and operate the pipeline for 25 years and reportedly will spend USD 350 million on construction. Pertamina will build the 250-kilometer (km) Gresik to Semarang segment, while Rekayasa will build the 230-km Semarang to Cirebon segment. Gas flows from East Java are slated to start in 2009. Pertamina and Rekayasa plan to charge pipeline tariffs of USD 36 and 25 cents per million British Thermal Unit (mmbtu) respectively, significantly cheaper than the Grissik-Duri (Sumatra) pipeline tariff of USD 62 cents per mmbtu. Other companies participating in the tender were state gas company PGN, Indonesian pipe manufacturer Bakrie Pipe Industries, and local engineering firm PT Moeladi.

Shell Opens Fuel Retail Outlets in Jakarta

Royal Dutch Shell opened its second and third retail fuel stations in Jakarta in March 2006. Shell entered the Indonesian fuel retail market as Indonesia's first private fuel retailer in November 2005. It markets high-octane gasoline and diesel comparable to Pertamina's Pertamax and DEX diesel fuel, and has stated it is considering entering the subsidized fuel market. However, in order to obtain approval from BPH Migas to market subsidized fuel, Shell would need to establish at least 20 retail outlets in three or more of Indonesia's fuel distribution regions. BPH Migas appoints sellers of subsidized fuel through direct appointment or tender, and plans to tender a public service obligation (PSO) to distribute subsidized fuel in mid 2006.

Pertamina and ExxonMobil Sign Cepu JOA

On March 15, Pertamina and ExxonMobil signed a Joint Operating Agreement (JOA) for the Cepu block located in East and Central Java, ending more than four years of negotiations. Under the agreement, the two companies agreed to form a joint operating committee, with ExxonMobil subsidiary Mobil Cepu Limited serving as sole operator. In September 2005, Pertamina and ExxonMobil signed an agreement with upstream regulator BP Migas converting ExxonMobil's Technical Assistance Contract (TAC) with Pertamina into a joint Production Sharing Contract (PSC), and extending the PSC for 30 years to year 2035. ExxonMobil and Pertamina each hold 45 percent interest in the Cepu block, with the remaining 10 percent held by the governments of East Java, Central Java, Blora Regency, and Bojonegoro Regency. The Cepu block is estimated to contain reserves of 1.7 trillion cubic feet of gas and 600 million barrels of oil, and

represents Indonesia's largest oil discovery in three decades. First production is slated for 2008 with initial capacity of 25,000 to 40,000 barrels per day increasing to 170,000 barrels per day at peak production. GOI officials have stated that production from Cepu will play an important role in Indonesia's efforts to stem declining oil production.

Bumi Resources Divests Coal Units

Indonesia's largest coal exporter PT Bumi Resources announced on March 16 that the company had signed an agreement to sell its coalmines to the little-known Indonesian firm PT Borneo Lumbung Energi. Borneo is reportedly affiliated with the privately held Indonesian securities firm Renaissance Capital, and reportedly agreed to pay USD 3.2 billion for a 95 percent stake in Kaltim Prima Coal (KPC) and 100 percent stakes in Arutmin and Indocoal Resources. KPC and Arutmin are Indonesia's second and fourth largest coal mines, producing 27.6 and 16.8 million tons of coal respectively in 2005. The Jakarta Stock Exchange (JSX) suspended trading of shares in Bumi Resources for three working days following the company's unanticipated sale announcement. Bumi Resources announced that it plans to enter the alternative energy business after closing the transaction in June 2006, possibly including coal liquefaction, upgrading brown coal, and biofuel. In addition, Bumi Resources also disclosed it planned to merge with Energi Mega Persada (EMP), Indonesia's second largest local oil and gas producer, in July 2006. Both Bumi Resources and EMP are affiliated with the family of Coordinating Minister for Peoples' Welfare Aburizal Bakrie.

PLN Tenders Six IPP Projects

On March 29, state electricity company PLN announced the tender of five coal-fired and one combined cycle Independent Power Projects (IPP) in Java, Kalimantan and Sulawesi. In the tender documents, PLN banned companies participating in the 600 megawatt (MT) Cirebon power plant from entering bids on the 500 MW Pasuran project. PLN estimated that the projects would require an estimated investment of up to USD 2.3 billion dollars, and would increase national grid capacity by 2,200 megawatts (MW) starting in year 2010. However, analysts believe that PLN will face serious challenges meeting growing electricity demand in the future because of a lack of projects in the pipeline and a lengthy project implementation process. Minister of Energy and Mineral Resources Purnomo Yusgiantoro has estimated that in order to keep up with a nine percent average growth in power demand, Indonesia will need over 30,000 MW of new generation capacity in the next 10 years, including 21,000 MW in Java alone.

Table 1: IPP Projects Tendered

No	Project Name	Capacity (MW)	Location	Est. Completion
1	Central Java Coal Fired Steam	1,200	Northern Central Java	2011
2	Pasuruan Combined Cycle	500	East Java	2010
3	East Kalimantan Coal Fired Steam	50	Eastern East Kalimantan	2010
4	North Sulawesi Coal Fired Steam	50	Easterh North Sulawesi	2010
5	North Sumatra Coal Fired Steam	200	Eastern North Sumatra	2010
6	Bali Coal Fired Steam	200	Northern Bali	2010

Government Withdraws Electricity Tariff Hike Plan

On March 21, President Yudhoyono announced that the GOI would not increase electricity tariffs in 2006 as anticipated by the 2006 budget. The GOI's plans to raise electricity tariffs had encountered strong resistance from Parliament and the business community since its announcement shortly after the October 2005 fuel subsidy cuts. PLN generates an estimated 40 percent of its power through diesel-fired plants, and accordingly faces sharply higher costs in the wake of the October 2005 fuel price hikes. In order to cover increased generating costs, PLN requested an increase in its Rp 15 trillion (USD 1.9 billion) 2006 subsidy and permission to increase tariffs up to 50 percent. However, a March 2006 audit by the Supreme Audit Board calculated PLN's deficit as closer to Rp 27.2 trillion (USD 3 billion).

In 2006, PLN hopes to reduce diesel consumption by bringing online three coal-fired or combined cycle power plants, Cilacap, Tanjung Jati B and Cilegon. However thin reserve margins on the Java Bali grid combined with uncertainty over gas supply may limit PLN's capacity to take diesel-fired plants offline. PLN also plans to minimize transmission losses, improve customer collections, and reduce production cost and electricity theft to cut its operating deficit.

Gas Supply Agreements Signed

On March 7, state gas company PGN signed a MOU with Asia Petroleum Development Asahan (APDA), a subsidiary of Canada's Serica Energy, for the purchase of gas from the Asahan field offshore North Sumatra. APDA will supply 20 million cubic feet per day (mmcf) of gas for four years beginning in 2008. PGN stated

the additional supply will help PGN meet industrial demand in North Sumatra and boost the company's revenue by USD 40 million per year. Other significant gas supply agreements signed during March 2006 include:

- The Indonesian energy company Medco Energi signed a Heads of Agreement (HOA) under which it will supply 10 mmcf of gas to the South Sumatra gas supplier Mitra Energi Buana.
- Medco signed a gas supply MOU with the South Sumatra provincial government-owned company Petromuba for a small power plant in South Sumatra. Terms of the MOU were not announced.
- French energy giant Total signed a HOA to supply 2.3 mmcf of gas to PLN's Bontang, East Kalimantan power plant.
- Total signed a MOU to supply PLN's Balikpapan power plant in East Kalimantan. Terms of the MOU were not announced.

Table 2: Gas Agreement Signing

Suppliers	Buyers	Contract Type	Start Year	Contract Years	Volume (TBTU)
Medco E&P	Mitra Energi Buana	HOA	2007	10	8.25
Total E&P	PLN Bontang	HOA	2008	6.5	6.8
Medco E&P	Petromuba	MOU	2007	n.a	n.a
Total E&P	PLN Balikpapan	MOU	n.a	n.a	n.a